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Recommendations for a Successful ACA Rate Filing

Joe Slater, FSA, MAAA

Defining a "Successful Rate Filing"

For purposes of this writing, a successful rate filing:

a) Is accepted by the rate reviewers and regulators without changes and with no, or very little, questions or requests for additional information; and

b) Reflects the insurance company's best estimate of expected claim costs, administration expenses, broker commissions, taxes, fees, and necessary profit, risk margin, and contribution to surplus to cover the expected membership for each plan, rating area, and contract type.

These goals can often conflict with one another. This can be especially true for ACA rate filings. Assuming that the rate review is performed correctly, it is essential that an ACA rate filing complies with the ACA's rating rules and the Unified Rate Review (i.e., URR) instructions. The ACA's modified community rating rules prohibit the rating of policyholders based on health status, while also limiting the allowable rating factors that an insurer can use to price different members and plan options. As a result, ACA rates tend to underprice older and other high cost members, while over-pricing younger and healthier members. This situation presents the very real potential for selection risk if younger and healthier individuals forgo coverage, while older and more care-intensive individuals purchase coverage.

Many carriers and health plans experienced significant losses on their Individual and Small Group ACA product offerings in 2014 and 2015. While federal risk adjustment and reinsurance programs offset some of these losses, many insurers sought larger than expected rate increases in 2016 to raise the premiums for their ACA blocks up to more reasonable and profitable levels. Unfortunately for the insurers who submitted the rate filings, these large rate increases often met very stiff resistance from rate reviewers and regulators as they were subject to aggressive rate reviews.

My firsthand consulting experience over the past year suggests that the rate filing process for most carriers can be improved to help streamline the rate review process, and in most situations result in quicker approval of more reasonable rates. I saw firsthand the degree to which ACA rate filings could be reviewed. Several of the filings received multiple rounds of rate review questions (objections), with each round having a dozen or more questions requesting additional details, data, and rate development exhibits. What I found most interesting was that, for the most part, the rate increases being requested were not unreasonable. In fact, several of them were actually too low based on the experience data and reasonable assumptions and projection factors.

> "For the most part, rate increases being requested were not unreasonable...the rate filing documents were sometimes poorly prepared and often hard to understand."

The biggest fault I could find with the rate filings I reviewed was not the associated rate development, but the actual rate filings themselves. While the rate developments underlying the requested rate increases were sound and consistent with the law and applicable regulations, the rate filing documents, especially the Part III Actuarial Memorandum, were sometimes less than adequately prepared and often hard to understand, did not provide the information requested by the URR instructions, and did not sufficiently demonstrate that the underlying rate development followed the ACA's rating rules.

The purpose of this paper is to discuss several key opportunities to improve the carrier's ACA rate filings and increase the chances that these ACA rate filings, especially those requesting significant rate increases, will be successful.

Understand Your Rate Reviewer

To assure that the rate filing review proceeds in an efficient manner, it is critical that the actuaries involved provide a thorough rate filing document that is easily comprehended and navigable by the rate reviewer. In addition, documentation must be demonstrably consistent with the rate development and rate filing requirements (i.e., the URR instructions). To help with this goal, it is highly advisable that the actuaries develop an understanding of the rate reviewer's job, requirements, and circumstances. To develop a better understanding of the rate reviewer, it would be helpful for actuaries preparing ACA rate filings to keep the following points in mind.

The Rate Reviewer is Not Familiar with Your Business

The rate reviewer usually does not understand the company and its business as well as the filing actuaries do. Certain aspects of a rate development are company- and product- specific, and might not be easily understood by someone unfamiliar with them. Additionally, the rate reviewer may not be the same reviewer as in prior years. In these cases, there will probably be limited, if any, learnings from previous filings concerning a specific company's products that will be carried forward with each rate review. It is best to assume that the reviewer is essentially starting from scratch with each he or she reviews a rate filing.

Your Rate Reviewer Might Not be a Seasoned Pricing Actuary

The primary rate reviewer will often be a less experienced actuary, or an actuarial student or analyst without any formal actuarial credentials, with limited experience as a pricing actuary, although perhaps reporting to a credentialed actuary. In some cases, the rate reviewer will have had no prior experience with developing a rate filing for an insurance company. Many ACA rate reviews are completed by contracted consulting firms that complete much of the review at a low billing rate, less experienced consultant level, with the limited oversight of a credentialed actuary. Additionally, the budget per review could be quite limited. The supervising

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actuary will be involved in the rate review, of course, but much of what they understand will come of the analysts they supervise who are responsible for doing the "heavy-lifting" part of the rate review. With this possibility in mind, it is prudent that filings be developed at a level that is consistent with the background of a less-than-experienced actuarial analyst.

Your Rate Reviewer is Busy

A typical ACA rate reviewer might be conducting reviews of several different rate filings at the same time. As such, he or she does not have the time to become actively engaged in understanding a specific rate filing and rate development. In other words, rate reviewers are more likely to be passive consumers of a rate filing than an actuary who has the time and inclination to actively work through and develop a deep understanding of the rate filing and rate development being reviewed. Therefore, if an aspect of a rate filing is not fairly easily understood, or obviously consistent with the specific rating rules or rate filing instructions, the reviewer will delay approval of the rate filing and request more information from the actuaries who submitted the rate filing.

Rate Reviewers Are Probably Using a "Review Outline" and/or Checklist

To ensure a level of consistency across rate reviewers, and to streamline the work involved with a rate review, it highly probable that rate reviewers work from a standard "review outline" or checklist. This standard outline or checklist will take a large of amount of subjective judgment away from the rate reviewer, and thus places more onus on the filing actuaries to develop a rate filing that is demonstrably consistent with the associated rating rules and rate filing requirements. Such outlines may focus on specific aspects of the rate filing with the emphasis changing each year.

Rate Reviewers Are Probably Under Significant Pressure from Their Managers

Finally, rate reviewers are often responding to political or consumer pressures to keep rate increases low. As such, any rate filing that requests rate increases greater than single digits or is not consistent with "expected improvements" in insurance costs due to healthcare reform will be subject to extensive scrutiny. For these filings, it is very important to provide as much evidence as possible to counter any possible skepticism concerning specific aspects of the rate development. Of course, this is much easier said than done, and it is not wise to produce a 150-page rate filing. However, it is prudent to anticipate rate review questions around the parts of the rate development that are most responsible for high requested rate increases, and develop exhibits and narratives above and beyond stated requirements to answer these questions in the original rate filing submission.

> "Anticipate questions around the parts of the rate development that are most responsible for high requested rate increases."

Learn and Master the Fundamentals of ACA Rate Filings

Whether one aspires to be a world class professional basketball player, an elite concert pianist, or a great actuary, it is important to practice and master the fundamentals. The fundamentals for actuarial pricing work should be well understood by any actuary signing an actuarial memorandum for an ACA rate filing. However, it also important that these same pricing actuaries learn and master the fundamentals of creating an ACA rate filing. Understanding the ACA's rating rules and URR instructions are a necessary but not sufficient component of the fundamentals of ACA rate filing creation. There are other important factors to consider. The list of recommendations below should also be considered necessary components of the fundamentals of ACA rate filing creation. Many of these recommendations are straight-forward, but they are not always easily carried out.

> "Pricing actuaries should master the fundamentals of creating an ACA rate filing."

Make Your Rate Filing Reviewer-Friendly

An ACA rate filing is not simply an exercise in getting the correct answer while faithfully following the rules and instructions. A successful ACA rate filing will provide a thoughtful and rule-adhering rate development in a simple and easy-to-understand format. I often try to write to a "3rd grade level" to be sure that anything I present is easily understood, and I recommend the same approach to others.

Follow the Rules and Instructions

You should develop each section of the URRT and Part III Actuarial Memorandum with the ACA's rating rules and URR instructions in mind. For example, if the URR instructions request that you explain the adjustments you made to the source data to develop your trend factors, and then lists six potential adjustments you may have made, you should list the adjustments you made to the source data and explain why some, if any, of the example adjustments were not made. In other words, provide the information being requested.

Remember That Different People Have Different Learning Styles

Filing documents should take into account the fact that different people learn and comprehend in different ways. Some people are "numbers" people, some are "narrative" people, and some are a combination of the two approaches. Provide plenty of information to satisfy all types of learning styles. This means that you need to populate each section of your Part III Actuarial Memorandum with both quantitative exhibits and a detailed narrative of the information being requested.

Be Redundant

Redundancy in providing information and explaining an assumption or calculation is significantly preferable to providing incomplete information from the reviewer's point of view. If you faithfully follow the previous recommendation about giving both quantitative and qualitative answers to requests for information, you will necessarily be providing redundant information. Additionally, it may make sense to provide the same information in more than one section of your Part III Actuarial Memorandum (e.g., projection period area factors may need to be provided in both the "Projection Factors" and "Calibration" sections). If this is the case, provide detailed information in each section even if you are simply repeating yourself. This approach makes it easier for the rate reviewer to follow along, and it ensures that you are following the rules and instructions.

Be Consistent

Numbers, data, and assumptions should be consistently presented in the rate filing documents. If there is an inconsistency, explain it before being asked. Going back to area factors mentioned in the previous recommendation, it is allowable to use a different set of area factors in the "Projection Factors" section than the set that must be used in the "Calibration" section. If you did use different sets of area factors in both sections (e.g., the projection area factors might be more granular than the area factors allowed by CMS), then you need to be crystal clear in both sections what area factors you used and how they were created. On a related basis, it is helpful to provide references to numbers or assumptions used in a calculation that were developed in other sections of the filing. The references will help the reviewers understand the source of the calculation input, and see how different pieces of the rate development and the filing tie together.

> "Consider what is requested in the URR instructions as the minimum amount of information that you need to provide."

Document Every Assumption and Calculation

Every assumption and calculation needs to be documented, and the logic behind it explained. If an assumption is just given without any sort of explanation, it is likely that the rate reviewer will request information on how the assumption was chosen and how the assumption is consistent with the ACA's rating rules and/or URR instructions. Some reviewers refer to this as justification for the assumption, and it is generally prudent to provide justification in the memorandum.

Develop High-Level Summary Exhibits

The Part III Actuarial Memorandum of each ACA rate filing should include high-level summary exhibits that tie together the experience data, assumptions, and final rates. We recommend that the rate filing actuaries develop, at a minimum, exhibits that show the experience period Index Rate, projected period total allowed claims PMPM, projected period Index Rate, the Market Adjusted Index Rate, and Plan Adjusted Index Rates. In these exhibits, it should be clear how each part of the rate development is related, and inputs in one exhibit are outputs from others.

Anticipate the Rate Reviewer's Questions

You should consider what is requested in the URR instructions as the minimum amount of information that you need to provide in the Part III Actuarial Memorandum of your ACA rate filing. Additionally, it is important that you provide detailed evidence of your rate filing's compliance with the ACA's rating rules. This is especially true for the portions of your rate filing that drive your ACA product's rate increase. If your rate filing is requesting a 35% rate increase, which is partially due to an assumed increase in morbidity between the experience and projection period of 20%, it is very likely that your support of the 20% increase in morbidity will be heavily scrutinized by the rate reviewers. Therefore, it is important that you provide as much evidence as possible that your morbidity increase assumption was developed using sound actuarial principles, is supported by the data and recent trends, and is consistent with the ACA's rating rules. Leaving any of this in doubt puts your rate filing at risk of being rejected.

Develop and Conduct a Formal Peer Review Process

Some actuaries can provide a brilliant analysis that doesn't completely address the question or issue at hand. Additionally, some of the most experienced and diligent actuaries make simple mistakes. For most actuaries, it is very helpful for another actuary to review their work prior to submitting it to the business unit, to external actuaries, or to rate reviewers. In some states an external third party peer review is actually required by the insurance department. Additionally, the ACA rating rules and URR instructions can be somewhat confusing and even counter-intuitive for many actuaries who are used to different rating rules and rate filing instructions. Given these challenges, it is highly advisable that pricing actuaries producing ACA rate developments and rate filings have their work peer reviewed by other actuaries. In some cases, multiple peer reviewers may be selected to address different sections of the filing documents.

> "A formal peer review process is prudent."

For rate filings that receive a great deal of scrutiny, like ACA rate filings, a formal peer review process is prudent. A formal peer review process, as opposed to an ad hoc or informal peer review, typically has two elements. The first element involves the use of formal review tools, such as review outlines and checklists, to provide an objective score of the rate filing. The objective score is used to determine the quality of the filing from several perspectives:

- Compliance with the rating rules and rate filing instruction of the regulatory authority reviewing the filing;
- Documentation of the assumptions and data used to develop the rates;
- The ease of understandability of the rate development presented in the rate filing; and
- Technical correctness of the rate development, rate filing, and any supplemental exhibits submitted to support both.

A minimum objective score should be set to ensure that the rate filing is at least adequate from each perspective that the filing entity deems important. A rate filing that fails to meet the minimum objective score would be sent back to the filing actuaries with a list of items needing correction before submission.

Review tools like a review outline and checklists would need to be created from a review of the ACA's rating rules, the Unified Rate Review instructions, and previous rate filings' rate review questions. These tools could be developed by an internal or external group of actuaries, but must be comprehensive, regularly updated, and approved for use by senior actuarial leadership.

> "To ensure that the rate filing will be easily understood, it would be helpful to supplement peer review with a review by a less experienced actuarial associate."

The second important element of a peer review process is the independence of the actuaries conducting the peer review. A formal peer review should be conducted by an independent actuary, or team of actuaries. Independence is defined here as meaning that the actuaries who are conducting the peer review did not have involvement in, or familiarity with, the actual rate development and/or creation or population of the rate filing exhibits. This independence allows for the peer review actuaries to have the proper detachment and unbiased point of view necessary to properly critique and objectively score the rate filing. The peer review actuary or actuaries could be internal or external to the filing entity's actuarial department, but it is highly recommended that they be familiar with the ACA's rating rules and the URR instructions.

Large national health insurers might have the personnel necessary to conduct most or all of their ACA rate filing peer reviews, though there might be circumstances in which they would prefer that external consultants also conduct a thorough peer review. Small regional insurers probably do not have the staffing resources available to properly conduct a formal and effective peer review. For these companies it is advisable that they have a third party actuary perform a formal peer review of each of their ACA rate filings. All companies, regardless of size, should consider having a third party actuary develop, or help develop, their peer review tools and objective scoring system.

Review the Understandability of the ACA Rate Filing

Insurance companies submitting ACA rate filings might also benefit from a review of how easily understandable their rate filings are. As mentioned above, it is very possible that the primary rate reviewer of any specific rate filing is a somewhat inexperienced actuarial analyst who may have never developed nor signed a rate filing for an insurance company. To ensure that the rate filing will be easily understood by the rate reviewer regardless of his pricing experience, it would be helpful if in addition to the formal peer review described above, the rate development and rate filing's Part III Actuarial Memorandum were reviewed by a less-experience internal or external actuarial associate. This associate should have some exposure to actuarial pricing work, but should not have been involved with the work associated with the specific ACA rate filing being reviewed.

The purpose of this associate's review would be to determine that the rate filing exhibits and memorandum narrative provide enough information, from the perspective of an actuary with less than expert knowledge, to follow the development of the rate increase. This reviewer could work from an outline and/or develop a "back-of-the-envelope" rate increase calculation, and could provide the filing actuaries with recommendations to develop additional or revised exhibits to better explain the rate development.

About the Author:

Joe Slater FSA, MAAA, is a Senior Consulting Actuary in AHP's Murrieta, CA office. Joe can be reached at (951) 239-4345 or joe.slater@axenehp.com.